LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 7936
BILL NUMBER: HB 1420

DATE PREPARED: Jan 8, 2001
BILL AMENDED:

SUBJECT: Local option income tax for education.

FISCAL ANALYST: David Hoppmann
PHONE NUMBER: 232-9559

FUNDS AFFECTED: X **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: ***Establishment of Local Option Income Tax for Education-*** This bill allows a school income tax district to adopt a local option income tax for education (LOITE). It provides that each school income tax district is comprised of the school corporations that have their budgets reviewed in the same county. It provides that the tax applies to individuals (based on the adjusted gross income of individual taxpayers) and to corporations (based on the apportioned supplemental net income of corporations) that have net income for the taxable year.

LOITE Rates and Revenue- It provides that the tax may be imposed at a rate of not more than 0.25%. It provides that a school corporation may use the tax revenue only for the purpose of making employer contributions to the Indiana State Teachers' Retirement Fund (TRF) on behalf of the school corporation's employees who are members of that fund.

School Corporation General Fund- It specifies that the county auditor shall each year reduce the General Fund property tax levy of a school corporation receiving a certified distribution of LOITE by an amount equal to the amount of the certified distribution.

Effective Date: Upon passage.

Explanation of State Expenditures: The administration, auditing, and collection of the individual and corporate LOITE would result in an increased administrative cost to the Department of State Revenue.

Explanation of State Revenues:

Explanation of Local Expenditures: School income tax districts would incur costs associated with public notice and hearings regarding the imposition of the individual and corporation LOITE. These costs would vary from district to district.

Explanation of Local Revenues: This bill would establish school income tax districts (throughout the state), with each tax district being comprised of its school corporations having their respective budgets reviewed in the same county. It would establish a LOITE council within each district (a LOITE council would have the authority to adopt ordinances to either impose, rescind, increase, or decrease LOITE taxes for its district).

School income tax districts would be allowed to impose a LOITE on individuals at a rate of no more than 0.25% based on the adjusted gross income (AGI) of the respective individual taxpayer. Business entities (e.g., partnerships and Sub S corporations) would have income taxed at the individual rate, and paid by the individual partners or shareholders.

School income tax districts would be allowed to impose a LOITE on corporations at a rate of no more than 0.25% based on the apportioned supplemental net income (SNIT) of the respective corporation (apportioned net income for each corporation would be calculated by multiplying the total supplemental net income for that corporation by the ratio of the corporation's assessed value in the district to the corporation's total statewide assessed value).

It would require that both the individual LOITE rate and the corporate LOITE rate be identical in each school income tax district.

The ultimate impact of this bill would depend upon local action. This analysis assumes that **all** school corporations would become members of the school income tax districts, and that all appropriate ordinances would be adopted.

The numbers provided here estimate a **total statewide impact** as a result of this bill. Based on the December 19, 2000 Revenue Forecast, this analysis assumes a 6.1% increase in individual AGI revenue and a 1.5% increase in supplemental net income tax (SNIT) revenue from FY 2001 to FY 2002. FY 2003 revenues are expected to increase by 7.5% for individual and approximately 1.5% for business taxes. Expected revenues for a full tax year are as follows:

0.25% TAX		
	Individual AGI	Business SNIT
FY 2002	$313.3 M	$20.9 M
FY 2003	$336.8 M	$21.2 M

This analysis also assumes that districts are formed as soon as possible. This would mean an adoption of the tax in July 2001, with the first distribution to school corporations in CY2002.

This bill would require that the Department of State Revenue (before July 2 of each year) estimate and certify to the county auditor of each district, the amount of LOITE revenue that would be collected from July 1 to June 30 of the next year (this amount would be the district's certified distribution). It would require that half of the certified distribution be distributed to the county treasurer of each district before May 1 of the following year, and the other half before November 1. The certified distribution would then be deposited in each district's account within the state General Fund until distribution.

Once received, the county auditor would allocate the LOITE entirely for the purpose of making employer contributions to TRF (on behalf of a school corporation's member employees) by distributing funds to each school corporation according to its size in relation to the total district.

This bill would require that the 20% state property tax replacement credit provided through the state Property Tax Replacement Fund will not be affected by this proposal. (LOITE distributions would not reduce the total county property tax levy used to compute state property tax replacement credits.) The certified distributions would be considered as part of a school corporation's General Fund property tax levy for purposes of fixing the school corporation's budget and for calculation of the State tuition support funding formula.

Any LOITE certified distributions would result in decreased property tax rates and therefore smaller property tax bills for taxpayers. (The county auditor would be required to reduce the General Fund levy of a school corporation receiving LOITE distributions.)

This bill would stipulate that elderly and disabled persons be entitled to credits against their LOITE similar to the credits available for individual income taxes. The credit for the LOITE would equal the lesser of the following:

Elderly or Disabled Credit * (LOITE rate/.15); or

the amount of LOITE actually imposed on the individual taxpayer and the individual taxpayer's spouse. The impact of these credits would vary from district to district.

Total statewide elderly credits for 1997 and 1998 were $7,322,398 and $7,082,998 respectively.

State Agencies Affected: Department of State Revenue; State Board of Tax Commissioners.

Local Agencies Affected: School Corporations; County Auditors; County Treasurers.

Information Sources: December 19, 2000 Revenue Forecast; Department of State Revenue.